

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2020

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-15288

NETWORK-1 TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

11-3027591

(I.R.S. Employer
Identification No.)

**445 Park Avenue, Suite 912
New York, New York**

(Address of principal executive offices)

10022

(Zip Code)

212-829-5770

(Registrant's telephone number, including area code)

(Former name or former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	NTIP	NYSE American

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's common stock, \$.01 par value per share, outstanding as of August 10, 2020 was 24,021,826.

NETWORK-1 TECHNOLOGIES, INC.

Form 10-Q Index

	<u>Page No.</u>
PART I. Financial Information	
Item 1. Condensed Consolidated Financial Statements (unaudited)	
Condensed Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019	3
Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2020 and 2019	4
Condensed Consolidated Statements of Stockholders' Equity for the three and six months ended June 30, 2020 and 2019	5
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019	6
Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3. Quantitative and Qualitative Disclosures About Market Risk	35
Item 4. Controls and Procedures	35
PART II. Other Information	
Item 1. Legal Proceedings	36
Item 1A. Risk Factors	38
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	38
Item 3. Defaults Upon Senior Securities	39
Item 4. Other Information	39
Item 5. Exhibits	39
Signatures	40

Item 1. Condensed Consolidated Financial Statements

NETWORK-1 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 20,972,000	\$ 22,587,000
Marketable securities, at fair value	23,763,000	25,730,000
Royalty receivables, net	128,000	343,000
Other current assets	51,000	98,000
TOTAL CURRENT ASSETS	44,914,000	48,758,000
OTHER ASSETS:		
Patents, net of accumulated amortization	1,714,000	1,819,000
Equity investment	3,938,000	4,437,000
Operating leases right-of-use asset	—	41,000
Security deposits	21,000	21,000
Total Other Assets	5,673,000	6,318,000
TOTAL ASSETS	\$ 50,587,000	\$ 55,076,000
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable	\$ 38,000	\$ 421,000
Accrued contingency fees and related costs	45,000	492,000
Accrued payroll	16,000	334,000
Operating lease obligations – current	—	41,000
Other accrued expenses	226,000	281,000
TOTAL CURRENT LIABILITIES	325,000	1,569,000
TOTAL LIABILITIES	\$ 325,000	\$ 1,569,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.01 par value, authorized 10,000,000 shares; none issued and outstanding at June 30,2020 and December 31,2019	—	—
Common stock, \$0.01 par value; authorized 50,000,000 shares; 23,947,389 and 24,036,071 shares issued and outstanding at June 30,2020 and December 31,2019 respectively	239,000	240,000
Additional paid-in capital	65,981,000	65,824,000
Accumulated deficit	(16,029,000)	(12,636,000)
Accumulated other comprehensive income	71,000	79,000
TOTAL STOCKHOLDERS' EQUITY	50,262,000	53,507,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 50,587,000	\$ 55,076,000

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

NETWORK-1 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
REVENUE	\$ 55,000	\$ 599,000	\$ 216,000	\$ 1,205,000
OPERATING EXPENSES:				
Costs of revenue	20,000	175,000	52,000	321,000
Professional fees and related costs	124,000	238,000	523,000	545,000
General and administrative	459,000	488,000	945,000	976,000
Amortization of patents	72,000	87,000	144,000	141,000
Stock-based compensation	85,000	127,000	157,000	271,000
TOTAL OPERATING EXPENSES	760,000	1,115,000	1,821,000	2,254,000
OPERATING LOSS	(705,000)	(516,000)	(1,605,000)	(1,049,000)
OTHER INCOME (LOSS):				
Interest and dividend income, net	120,000	301,000	298,000	602,000
Net realized and unrealized gain (loss) on marketable securities	206,000	22,000	(116,000)	45,000
Total other income, net	326,000	323,000	182,000	647,000
LOSS BEFORE INCOME TAXES AND EQUITY IN NET LOSSES OF EQUITY METHOD INVESTEE	(379,000)	(193,000)	(1,423,000)	(402,000)
INCOME TAXES PROVISION (BENEFIT):				
Current	(142,000)	—	(382,000)	—
Deferred taxes, net	142,000	(38,000)	382,000	(103,000)
Total income taxes (benefit)	—	(38,000)	—	(103,000)
LOSS BEFORE SHARE OF NET LOSSES OF EQUITY METHOD INVESTEE:	\$ (379,000)	\$ (155,000)	\$ (1,423,000)	\$ (299,000)
SHARE OF NET LOSSES OF EQUITY METHOD INVESTEE	\$ (205,000)	\$ (53,000)	\$ (498,000)	\$ (149,000)
NET LOSS	\$ (584,000)	\$ (208,000)	\$ (1,921,000)	\$ (448,000)
Net loss per share				
Basic	\$ (0.02)	\$ (0.01)	\$ (0.08)	\$ (0.02)
Diluted	\$ (0.02)	\$ (0.01)	\$ (0.08)	\$ (0.02)
Weighted average common shares outstanding:				
Basic	23,945,916	23,917,563	23,987,715	23,830,367
Diluted	23,945,916	23,917,563	23,987,715	23,830,367
Cash dividends declared per share	—	—	\$ 0.05	\$ 0.05
NET LOSS	\$ (584,000)	\$ (208,000)	\$ (1,921,000)	\$ (448,000)
OTHER COMPREHENSIVE LOSS				
Net unrealized holding gain (loss) on corporate bonds and notes arising during the period, net of tax	175,000	53,000	(8,000)	163,000
COMPREHENSIVE LOSS	\$ (409,000)	\$ (155,000)	\$ (1,929,000)	\$ (285,000)

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

NETWORK-1 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

THREE AND SIX MONTHS ENDED JUNE 30, 2020

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance – December 31, 2019	24,036,071	\$ 240,000	\$ 65,824,000	\$ (12,636,000)	\$ 79,000	\$ 53,507,000
Dividends and dividend equivalents declared	—	—	—	(1,221,000)	—	(1,221,000)
Stock-based compensation	—	—	72,000	—	—	72,000
Vesting of restricted stock units	11,250	—	—	—	—	—
Cashless exercise of stock options	105,000	1,000	—	—	—	1,000
Shares delivered to fund stock option exercises	(100,293)	(1,000)	—	—	—	(1,000)
Treasury stock purchased and retired	(72,300)	(1,000)	—	(153,000)	—	(154,000)
Net unrealized loss on corporate bonds and notes	—	—	—	—	(183,000)	(183,000)
Net loss	—	—	—	(1,337,000)	—	(1,337,000)
Balance – March 31, 2020	<u>23,979,728</u>	<u>\$ 239,000</u>	<u>\$ 65,896,000</u>	<u>\$ (15,347,000)</u>	<u>\$ (104,000)</u>	<u>\$ 50,684,000</u>
Stock-based compensation	—	—	85,000	—	—	85,000
Vesting of restricted stock units	11,250	—	—	—	—	—
Treasury stock purchased and retired	(43,589)	—	—	(98,000)	—	(98,000)
Net unrealized gain on corporate bonds and notes	—	—	—	—	175,000	175,000
Net loss	—	—	—	(584,000)	—	(584,000)
Balance – June 30, 2020	<u>23,947,389</u>	<u>\$ 239,000</u>	<u>\$ 65,981,000</u>	<u>\$ (16,029,000)</u>	<u>\$ 71,000</u>	<u>\$ 50,262,000</u>

THREE AND SIX MONTHS ENDED JUNE 30, 2019

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance – December 31, 2018	23,735,927	\$ 237,000	\$ 65,151,000	\$ (7,102,000)	\$ (81,000)	\$ 58,205,000
Dividends and dividend equivalents declared	—	—	—	(1,215,000)	—	(1,215,000)
Stock-based compensation	—	—	144,000	—	—	144,000
Vesting of restricted stock units	11,250	—	—	—	—	—
Cashless exercise of stock options	105,000	1,000	(1,000)	—	—	—
Shares delivered to fund stock option exercise	(69,116)	—	—	—	—	—
Treasury stock purchased and retired	(300)	—	—	(1,000)	—	(1,000)
Net unrealized gain on corporate bonds and notes	—	—	—	—	110,000	110,000
Net Loss	—	—	—	(240,000)	—	(240,000)
Balance – March 31, 2019	<u>23,782,761</u>	<u>\$ 238,000</u>	<u>\$ 65,294,000</u>	<u>\$ (8,558,000)</u>	<u>\$ 29,000</u>	<u>\$ 57,003,000</u>
Stock-based compensation	—	—	127,000	—	—	127,000
Vesting of restricted stock units	11,250	—	—	—	—	—
Proceeds from exercise of stock options	65,150	—	107,000	—	—	107,000
Cashless exercise of stock options	859,849	9,000	(9,000)	—	—	—
Shares delivered to fund stock option exercises	(490,351)	(5,000)	5,000	—	—	—
Value of shares delivered to pay withholding taxes	—	—	—	(366,000)	—	(366,000)
Treasury stock purchased and retired	(139,848)	(1,000)	—	(332,000)	—	(333,000)
Net unrealized gain on corporate bonds and notes	—	—	—	—	53,000	53,000
Net loss	—	—	—	(208,000)	—	(208,000)
Balance – June 30, 2019	<u>24,088,811</u>	<u>\$ 241,000</u>	<u>\$ 65,524,000</u>	<u>\$ (9,464,000)</u>	<u>\$ 82,000</u>	<u>\$ 56,383,000</u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

NETWORK-1 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,921,000)	\$ (448,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of patents	144,000	141,000
Stock-based compensation	157,000	271,000
Loss from equity investment	498,000	149,000
Deferred tax benefit	—	(103,000)
Amortization of right of use asset, net	41,000	67,000
Unrealized (gain) on marketable securities	(1,000)	(45,000)
Changes in operating asset and liabilities:		
Royalty receivables	215,000	(197,000)
Other current assets	48,000	54,000
Accounts payable	(384,000)	133,000
Operating lease obligations	(41,000)	(67,000)
Accrued expenses	(829,000)	(1,297,000)
NET CASH USED IN OPERATING ACTIVITIES	(2,073,000)	(1,342,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of marketable securities	13,169,000	21,611,000
Purchases of marketable securities	(11,209,000)	(22,291,000)
Development of patents	(39,000)	(35,000)
Equity investment	—	(1,000,000)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,921,000	(1,715,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(1,211,000)	(1,191,000)
Value of shares delivered to fund withholding taxes	—	(366,000)
Repurchases of common stock, inclusive of commissions	(252,000)	(333,000)
Proceeds from exercise of options	—	107,000
NET CASH USED IN FINANCING ACTIVITIES:	(1,463,000)	(1,783,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,615,000)	(4,840,000)
CASH AND CASH EQUIVALENTS, beginning of period	22,587,000	23,763,000
CASH AND CASH EQUIVALENTS, end of period	\$ 20,972,000	\$ 18,923,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	\$ —	\$ —
NON-CASH FINANCING ACTIVITY		
Accrued dividend rights on restricted stock units	\$ 19,000	\$ 27,000

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

NETWORK-1 TECHNOLOGIES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – BASIS OF PRESENTATION AND NATURE OF BUSINESS:

[1] BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements are unaudited, but, in the opinion of the management of Network-1 Technologies, Inc. (the “Company”), contain all adjustments consisting only of normal recurring items which the Company considers necessary for the fair presentation of the Company’s financial position as of June 30, 2020, and the results of its operations and comprehensive loss for the three and six month periods ended June 30, 2020 and June 30, 2019, changes in stockholders’ equity for the three and six month periods ended June 30, 2020 and June 30, 2019, and its cash flows for the six month periods ended June 30, 2020 and June 30, 2019. The unaudited condensed consolidated financial statements included herein have been prepared in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with U.S. GAAP may have been omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 20, 2020. The results of operations for the three months ended June 30, 2020 are not necessarily indicative of the results of operations to be expected for the full year.

The accompanying unaudited condensed consolidated financial statements include accounts of the Company and its wholly-owned subsidiary, Mirror Worlds Technologies, LLC.

[2] BUSINESS

The Company is engaged in the development, licensing and protection of its intellectual property assets. The Company presently owns eighty-four (84) patents including (i) the remote power patent (the “Remote Power Patent”) covering the delivery of power over Ethernet (PoE) cables for the purpose of remotely powering network devices, such as wireless access ports, IP phones and network based cameras; (ii) the Mirror Worlds patent portfolio (the “Mirror Worlds Patent Portfolio”) relating to foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system; (iii) the Cox patent portfolio (the “Cox Patent Portfolio”) relating to enabling technology for identifying media content on the Internet and taking further actions to be performed based on such identification; (iv) the M2M/IoT patent portfolio (the “M2M/IoT Patent Portfolio”) relating to, among other things, enabling technology for authenticating, provisioning and using embedded sim cards in next generation IoT, Machine-to-Machine, and other mobile devices, including smartphones, tablets and computers; and (v) the QoS patents (the “QoS Patents”) covering systems and methods for the transmission of audio, video and data over computer and telephony networks in order to achieve high quality of service (QoS). The Company had been actively engaged in licensing its Remote Power Patent (U.S. Patent No. 6,218,930) which expired on March 7, 2020. As of the expiration date, the Company had entered into twenty-seven (27) license agreements with respect to its Remote Power Patent. The Company no longer receives licensing revenue for its Remote Power Patent that

NOTE A – BASIS OF PRESENTATION AND NATURE OF BUSINESS(continued)

accrues for any period subsequent to the expiration date (March 7, 2020). Notwithstanding the expiration of the Remote Power Patent, the Company may still receive significant revenue from its Remote Power Patent for periods prior to March 7, 2020 if it is successful on its appeal to the U.S. Court of Appeals for the Federal Circuit of the District Court's order of non-infringement of the Remote Power Patent in its trial with Hewlett Packard (see below and Note I [1] and Note I [2] hereof). The Company has also entered into two license agreements with respect to its Mirror Worlds Patent Portfolio.

The Company's current strategy includes continuing to pursue licensing opportunities for its intellectual property assets. In addition, the Company continually reviews opportunities to acquire or license additional intellectual property as well as other strategic alternatives. The Company's patent acquisition strategy is to focus on acquiring high quality patents which management believes have the potential to generate significant licensing opportunities as the Company has achieved with respect to its Remote Power Patent and Mirror Worlds Patent Portfolio. In addition, the Company may enter into strategic relationships with third parties to develop, commercialize, license or otherwise monetize their intellectual property.

On August 30, 2018, the Company appealed to the U.S. Court of Appeals for the Federal Circuit the decision of the U.S. District Court for the Eastern District of Texas denying its motion for a new trial on infringement with respect to the November 13, 2017 jury finding that its Remote Power Patent was not infringed by Hewlett Packard ("HP"). Oral argument on the appeal took place on November 4, 2019 and a decision is pending (see Note I[1] hereof). The Company has been dependent upon its Remote Power Patent for a significant portion of its revenue. As a result of the jury verdict in November 2017 with respect to the Company's trial with HP, several of the Company's largest licensees, including Cisco Systems, Inc. ("Cisco"), its largest licensee, notified the Company in late November 2017 and January 2018 that they would no longer make ongoing royalty payments to the Company pursuant to their license agreements. If the Company successfully overturns the District Court order of non-infringement in its appeal to the U.S. Court of Appeals for the Federal Circuit, certain licensees of the Remote Power Patent, including Cisco, will be obligated to pay the Company significant royalties that accrued but were not paid beginning in the fourth quarter of 2017 through March 7, 2020 (the expiration of the Remote Power Patent). If the Company is unable to reverse the District Court order of non-infringement on appeal, the Company will not likely receive significant licensing revenue from Cisco and certain other licensees for such period unless the Company obtains an arbitration ruling that the District Court order does not affect the obligation of Cisco and other licensees to pay the Company royalties under applicable license agreements or the Company reaches a satisfactory resolution with such licensees (see Note I[1] and Note I[2] hereof).

Consistent with the Company's revenue recognition policy (see Note B[4] hereof), the Company did not record revenue for 2018, 2019 and for the three and six months ended June 30, 2020 from certain licensees, including Cisco, who notified the Company they would not pay the Company ongoing royalties as a result of the HP jury verdict. The Company disagrees with the position taken by such licensees and may pursue arbitration if it does not achieve a satisfactory resolution (see Notes I[1] and I[2] hereof).

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Use of Estimates and Assumptions

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. The significant estimates and assumptions made in the preparation of the Company's unaudited condensed consolidated financial statements include revenue recognition, stock-based compensation, income taxes, valuation of patents and equity method investments, including evaluation of the Company's basis difference. Actual results could be materially different from those estimates, upon which the carrying values were based.

[2] Cash and Cash Equivalents

The Company maintains cash deposits in high quality financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). Accounts at each institution are insured by the FDIC up to \$250,000. At June 30, 2020, the Company maintained a cash balance of \$19,122,000 in excess of the FDIC insured limit.

The Company considers all highly liquid short-term investments, including certificates of deposit and money market funds, that are purchased with an original maturity of three months or less to be cash equivalents.

[3] Marketable Securities

The Company's marketable securities are comprised of certificates of deposit with original maturity greater than three months from date of purchase, fixed income mutual funds, and corporate bonds and notes (see Note F). At June 30, 2020, included in marketable securities, the Company had aggregate certificates of deposit of \$9,516,000 at financial institutions which were within the FDIC limit. The Company's marketable securities are measured at fair value and are accounted for in accordance with ASU 2016-01. Unrealized holding gains and losses on certificates of deposit and fixed income mutual funds are recorded in net realized and unrealized gain (loss) from investments on the unaudited condensed consolidated statements of operations and comprehensive loss. Unrealized holding gains and losses, net of the related tax effect, on corporate bonds and notes are excluded from earnings and are reported as a separate component of stockholders' equity until realized. Dividend and interest income are recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of the marketable securities.

[4] Revenue Recognition

Under ASC 606, revenue is recognized when the Company completes the licensing of its intellectual property to its licensees, in an amount that reflects the consideration the Company expects to be entitled to in exchange for licensing its intellectual property.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company determines revenue recognition through the following steps:

- identification of the license agreement;
- identification of the performance obligations in the license agreement;
- determination of the consideration for the license;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when the Company satisfies its performance obligations.

Revenue disaggregated by source is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Fully-Paid - Licenses	\$ —	\$ —	\$ —	\$ 130,000 ⁽¹⁾
Royalty Bearing - Licenses	55,000	599,000	216,000	1,075,000
Total Revenue	<u>\$ 55,000</u>	<u>\$ 599,000</u>	<u>\$ 216,000</u>	<u>\$ 1,205,000</u>

(1) Includes conversion of an existing royalty bearing license to a fully-paid license.

The Company relies on royalty reports received from third party licensees to record its revenue. From time to time, the Company may audit or otherwise dispute royalties reported from licensees. Any adjusted royalty revenue as a result of such audits or dispute is recorded by the Company in the period in which such adjustment is agreed to by the Company and the licensee or otherwise determined.

Revenue from the Company's patent licensing business is generated from negotiated license agreements. The timing and amount of revenue recognized from each licensee depends upon a variety of factors, including the terms of each agreement and the nature of the obligations of the parties. These agreements may include, but not be limited to, elements related to past infringement liabilities, non-refundable upfront license fees, and ongoing royalties on licensed products sold by the licensee. Generally, in the event of settlement of litigation related to the Company's assertion of patent infringement involving its intellectual property, defendants will either pay (i) a non-refundable lump sum payment for a non-exclusive fully-paid license (a "Fully-Paid License"), or (ii) a non-refundable lump sum payment (license initiation fee) together with an ongoing obligation to pay quarterly or monthly royalties to the Company for the life of the licensed patent (a "Royalty Bearing License").

The Company's license agreements, both Fully-Paid Licenses and Royalty Bearing Licenses, typically include some combination of the following: (i) the grant of a non-exclusive license to manufacture and/or sell products covered by its patented technologies; (ii) the release of the licensee from certain claims, and (iii) the dismissal of any pending litigation. The intellectual property rights granted pursuant to these licenses typically extend until the expiration of the related patents. Pursuant to the terms of these agreements, the Company typically has no further performance obligations with respect to the grant of the non-exclusive licenses. Generally, the license agreements provide for the grant of the licenses, releases, and other obligations following execution of the agreement and the receipt of the up-front lump sum payment for a Fully-Paid License or a license initiation fee for a Royalty Bearing License.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Ongoing Royalty Payments: Certain of the Company's revenue from Royalty Bearing Licenses results from the calculation of royalties based on a licensee's actual quarterly sales (one licensee pays monthly royalties) of licensed products, applied to a contractual royalty rate. Licensees that pay royalties on a quarterly basis generally report to the Company actual quarterly sales and related quarterly royalties due within 45 days after the end of the quarter in which such sales activity takes place. Licensees with Royalty Bearing Licenses are obligated to provide the Company with quarterly (or monthly) royalty reports that summarize their sales of licensed products and their related royalty obligations to the Company. The Company receives these royalty reports subsequent to the period in which its licensees underlying sales occurred. The amount of royalties due under Royalty Bearing Licenses, each quarter, cannot be reasonably estimated by management. Consequently, the Company recognizes revenue for the period in which the royalty report is received in arrears and other revenue recognition criteria are met.

Non-Refundable Up-Front Fees: Fully-Paid Licenses provide for a non-refundable up-front payment, for which the Company has no future obligations or performance requirements, revenue is generally recognized when the Company has obtained the signed license agreement, all performance obligations have been substantially performed, amounts are fixed and determinable, and collectability is reasonably assured. Revenue from Fully-Paid Licenses may consist of one or more installments. The timing and amount of revenue recognized from each licensee depends upon a number of factors including the specific terms of each agreement and the nature of the deliverables and obligations.

[5] Equity Method Investments

Equity method investments are equity securities in entities the Company does not control but over which it has the ability to exercise significant influence. These investments are accounted for under the equity method of accounting in accordance with ASC 323, *Investments — Equity Method and Joint Ventures* (see Note J hereof). Equity method investments are measured at cost minus impairment, if any, plus or minus the Company's share of an investee's income or loss. The Company's proportionate share of the income or loss from equity method investments is recognized on a one-quarter lag. When the Company's carrying value in an equity method investment is reduced to zero, no further losses are recorded in the Company's financial statements unless the Company guaranteed obligations of the investee company or has committed additional funding. When the investee company subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized. Upon sale of equity method investments, the difference between sales proceeds and the carrying amount of the equity investment is recognized in profit or loss.

[6] Patents

The Company owns patents that relate to various technologies. The Company capitalizes the costs associated with acquisition, registration and maintenance of its acquired patents and amortizes these assets over their remaining useful lives on a straight-line basis. Any further payments made to maintain or develop the patents would be capitalized and amortized over the balance of the useful life for the patents.

[7] Costs of Revenue

The Company includes in costs of revenue for the three and six months ended June 30, 2020 and 2019 contingent legal fees payable to patent litigation counsel (see Note G[1] hereof) and incentive bonus compensation payable to its Chairman and Chief Executive Officer (see Note H[1] hereof).

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Income Taxes

The Company accounts for income taxes in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) *Topic 740, Income Taxes* (ASC 740), which requires the Company to use the assets and liability method of accounting for income taxes. Under the assets and liability method, deferred income taxes are recognized for the tax consequences of temporary (timing) differences by applying enacted statutory tax rates applicable to future years to differences between financial statement carrying amounts and the tax bases of existing assets and liabilities and operating loss and tax credit carry forwards. Under this accounting standard, the effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all, of a deferred tax asset will not be realized.

ASC 740-10, *Accounting for Uncertainty in Income Taxes*, defines uncertainty in income taxes and the evaluation of a tax position as a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met. The Company had no uncertain tax positions as of June 30, 2020 and 2019.

U.S. federal, state and local income tax returns prior to 2016 are not subject to examination by any applicable tax authorities, except that tax authorities could challenge returns (only under certain circumstances) for earlier years to the extent they generated loss carry-forwards that are available for those future years. In July 2018, the Internal Revenue Service notified the Company that it was examining its 2016 federal tax return. In March 2020, the Company was advised by the Internal Revenue Service that the examination was concluded with no change to the Company's 2016 federal tax return.

In March 2020, the Company received notices of tax assessments for 2018 from the New York State Department of Taxation in the amounts of \$638,745 and \$57,784. After discussions with the New York State Department of Taxation and Finance, on May 6, 2020, the Company filed an amended 2018 tax return to provide additional information. On May 13, 2020, the Company was advised that the amended return was accepted and there was no tax with respect to the assessments due.

The personal holding company ("PHC") rules under the Internal Revenue Code impose a 20% tax on a PHC's undistributed personal holding company income ("PHC Income"), which means, in general, taxable income subject to certain adjustments. For a corporation to be classified as a PHC, it must satisfy two tests: (i) that more than 50% in value of its outstanding shares must be owned directly or indirectly by 5 or fewer individuals at any time during the second half of the year (after applying constructive ownership rules to attribute stock owned by entities to their beneficial owners and among certain family members and other related parties) (the "Ownership Test") and (ii) at least 60% of its adjusted ordinary gross income for a taxable year consists of dividends, interest, royalties, annuities and rents (the "Income Test"). During July 2020, based upon available shareholder ownership information, the Company may have satisfied the Ownership Test. As a

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

result, the Company has engaged tax counsel to further evaluate whether it has satisfied the Ownership Test and whether potential future income generated by the Company constitutes “royalties” within the meaning of the Income Test as well as other related PHC issues. If the Company satisfies the Ownership Test and achieves net income for the year ended December 31, 2020 (or for any subsequent year in which the Ownership Test is also satisfied) that is determined to satisfy the Income Test, the Company would constitute a PHC and for the year ended December 31, 2020 (and each subsequent year in which the Ownership Test is also satisfied), the Company would be subject to a 20% tax on the amount of any PHC Income that it does not distribute to its shareholders. While the Company has sustained a net loss of \$1,921,000 for the six month period ended June 30, 2020, it is possible that the Company could achieve significant income for the year ended December 31, 2020 in the event of favorable outcomes of pending litigation and receipt of significant revenue including, but not limited to, its appeal to the U.S. Court of Appeals for the Federal Circuit of the District Court’s order of non-infringement in its trial with HP (see Note I[1] and Note I[2] hereof). If any such net income were achieved for the year ended December 31, 2020 and determined to be PHC Income, it would be subject to a 20% tax on the amount of any PHC Income the Company does not distribute to its shareholders.

[9] Stock-Based Compensation

The Company accounts for its stock-based compensation awards to employees and directors in accordance with FASBASC *Topic 718, Compensation - Stock Compensation* (“ASC 718”). ASC 718 requires all stock-based compensation to employees, including grants of employee stock options and restricted stock units, to be recognized in the condensed consolidated statements of operations and comprehensive loss based on their grant date fair values.

Compensation expense related to awards to employees is recognized on a straight-line basis based on the grant date fair value over the associated service period of the award, which is generally the vesting term. Share based payments issued to non-employees are recorded at their fair values and are periodically revalued as the equity instruments vest and are recognized as expense over the related service period and are expensed using an accelerated attribution model. The Company uses the Black-Scholes option pricing model to determine the grant date fair value of options granted. The fair value of restricted stock units is determined based on the number of shares underlying the grant and either the quoted market price of the Company’s common stock on the date of grant for time-based and performance-based awards, or the fair value on the date of grant using the Monte Carlo Simulation model for market-based awards (see Note D for further discussion of the Company’s stock-based compensation).

[10] Earnings Per Share

The Company reports earnings per share in accordance with U.S. GAAP, which requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts, such as warrants and options to purchase common stock, were exercised and shares were issued pursuant to outstanding restricted stock units. Common stock equivalents having an anti-dilutive effect on earnings per share are excluded from the calculation of diluted earnings per share (see Note E).

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[11] Fair Value Measurements

ASC Topic 820, Fair Value Measurement and Disclosures, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy which requires classification based on observable and unobservable inputs when measuring fair value.

There are three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) in an active market for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that are supported by little or no market activity; therefore, the inputs are developed by the Company using estimates and assumptions that the Company expects a market participant would use, including pricing models, discounted cash flow methodologies, or similar techniques.

The carrying value of the Company's financial instruments, including cash and cash equivalents, royalty receivable, other assets, accounts payable, and accrued expenses approximates fair value because of the short-term nature of these financial instruments.

The Company's marketable securities are classified within Level 1 because they are valued using quoted market prices in an active market (see Marketable Securities – Note F).

[12] Carrying Value, Recoverability and Impairment of Long-Lived Assets

An impairment loss shall be recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). That assessment shall be based on the carrying amount of the asset (asset group) at the date it is tested for recoverability. An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value.

If an impairment loss is recognized, the adjusted carrying amount of a long-lived asset shall be its new cost basis. For a depreciable long-lived asset, the new cost basis shall be depreciated (amortized) over the remaining useful life of that asset. Restoration of a previously recognized impairment loss is prohibited. At June 30, 2020 and 2019, there was no impairment to the Company's patents and equity investment.

The Company's equity method investment in ILiAD Biotechnologies, LLC ("ILiAD"), a privately held development stage biotechnology company (see Equity Investment – Note J) is evaluated on a non-recurring basis for impairment and is classified within Level 3 as it is valued using significant unobservable inputs or data in an inactive market, and the valuation requires management judgment due to the absence of market price and inherent lack of liquidity.

[13] Dividend Policy

Cash dividends are recorded when declared by the Company's Board of Directors. Common stock dividends are charged against retained earnings when declared or paid (see Note M hereof).

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[14] New Accounting Standards

Recently Issued Accounting Standards

Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*. The ASU removes certain exceptions for performing intra-period allocation and calculating income taxes in interim periods. It also simplifies the accounting for income taxes by requiring recognition of franchise tax partially based on income as an income-based tax, requiring reflection of enacted changes in tax laws in the interim period and making improvements for income taxes related to employee stock ownership plans. ASU 2019-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2020. Early adoption is permitted, including adoption in any interim period for which financial statements have not been issued. The Company is currently evaluating the impact the standard will have on its consolidated financial statements.

Equity Securities

In January 2020, the FASB issued ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. The ASU amends and clarifies certain interactions between the guidance under Topic 321, Topic 323 and Topic 815, by reducing diversity in practice and increasing comparability of the accounting for these interactions. The amendments in the ASU should be applied on a prospective basis. The ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period for which financial statements have not yet been issued. The Company is currently evaluating the impact the standard will have on its consolidated financial statements.

Recently Adopted Accounting Pronouncements

Fair Value Measurements

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (“ASC 820”), Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”)*. ASU 2018-13 is intended to improve the effectiveness of fair value measurement disclosures. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. On January 1, 2020, the Company adopted ASU 2018-13. The adoption of this standard did not have a material impact on the Company’s condensed consolidated financial statements.

NOTE C – PATENTS

The Company's intangible assets at June 30, 2020 include patents with estimated remaining economic useful lives ranging from 1.25 to 13.25 years. For all periods presented, all of the Company's patents were subject to amortization. The gross carrying amounts and accumulated amortization related to acquired intangible assets as of June 30, 2020 and December 31, 2019 were as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Gross carrying amount – patents	\$ 7,835,000	\$ 7,797,000
Accumulated amortization – patents	(6,121,000)	(5,978,000)
Patents, net	<u>\$ 1,714,000</u>	<u>\$ 1,819,000</u>

Amortization expense for the three months ended June 30, 2020 and June 30, 2019 was \$72,000 and \$87,000, respectively. Amortization expense for the six months ended June 30, 2020 and June 30, 2019, was \$144,000 and \$141,000 respectively. Future amortization of intangible assets, net is as follows:

<u>Twelve Months Ended June 30,</u>	
2021	\$ 293,000
2022	293,000
2023	293,000
2024	118,000
2025 and thereafter	717,000
Total	<u>\$ 1,714,000</u>

The Company's Remote Power Patent expired on March 7, 2020. All of the patents within the Company's Mirror Worlds Patent Portfolio have expired. The expiration dates of the patents within the Cox Patent Portfolio range from September 2021 to November 2023. The expiration dates of patents within the Company's M2M/IoT Patent Portfolio range from September 2033 to May 2034.

NOTE D – STOCK-BASED COMPENSATION

Restricted Stock Units

During the six months ended June 30, 2020, the Company issued 15,000 restricted stock units ("RSUs") to each of its three non-management directors as an annual grant for 2020 for service on the Company's Board of Directors. The RSUs vest in four equal quarterly installments of 3,750 shares of common stock on March 15, 2020, June 15, 2020, September 15, 2020 and December 15, 2020, subject to continued service on the Board of Directors.

During the six months ended June 30, 2019, the Company issued 15,000 RSUs to each of its three non-management directors as an annual grant for 2019 for service on the Company's Board of Directors. The RSUs vested in four equal quarterly installments of 3,750 shares of common stock on March 15, 2019, June 15, 2019, September 15, 2019 and December 15, 2019.

NOTE D – STOCK-BASED COMPENSATION (CONTINUED)

A summary of restricted stock unit activity for the six months ended June 30, 2020 is as follows (each restricted stock unit issued by the Company represents the right to receive one share of the Company's common stock):

	<u>Number of Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>
Balance of restricted stock units outstanding at December 31, 2019	340,000	\$ 2.15
Grants of restricted stock units	45,000	2.30
Vested restricted stock units	<u>(22,500)</u>	<u>2.30</u>
Balance of unvested restricted stock units at June 30, 2020	<u>362,500</u>	<u>\$ 2.16</u>

Restricted stock unit compensation expense was \$85,000 and \$127,000 for the three months ended June 30, 2020 and June 30, 2019, respectively. Restricted stock unit compensation expense was \$157,000 and \$271,000 for the six months ended June 30, 2020 and June 30, 2019, respectively.

The Company has an aggregate of \$170,000 of unrecognized restricted stock unit compensation as of June 30, 2020 to be expensed over a weighted average period of 0.67 years.

All of the Company's outstanding (unvested) restricted stock units have dividend equivalent rights. As of June 30, 2020, there was \$100,000 accrued for dividend equivalent rights. As of December 31, 2019, there was \$90,000 accrued for dividend equivalent rights.

Stock Options

There were no stock option grants during the six months ended June 30, 2020 and June 30, 2019. The following table presents information relating to all stock options outstanding and exercisable at June 30, 2020:

Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Options Exercisable
500,000	\$1.19	2.34	500,000

The Company had no recorded stock-based compensation related to stock option grants for the six months ended June 30, 2020 and June 30, 2019.

The Company had no unrecognized stock-based compensation cost as of June 30, 2020. The aggregate intrinsic value of stock options exercisable at June 30, 2020 was \$490,000.

During the six months ended June 30, 2020, stock options to purchase an aggregate of 105,000 shares of the Company's common stock, at an exercise price of \$2.34 per share, were exercised on a net exercise (cashless) basis by three non-management directors of the Company. With respect to the aforementioned stock options, net shares of an aggregate of 4,707 shares were delivered to the non-management directors.

During the three months ended June 30, 2019, stock options to purchase an aggregate of 925,000 shares were exercised by executive officers of the Company and a consultant (750,000 shares at an exercise price of \$0.83 per share by the Company's Chairman and Chief Executive Officer, 50,000 shares at an exercise price of \$1.65 per share by each of the Company's Chief Financial Officer and Executive Vice President and 75,000 shares at an exercise price of \$1.65 per share by a consultant). With respect to such options, options to purchase an aggregate of 859,849 shares

NOTE D – STOCK-BASED COMPENSATION (CONTINUED)

were exercised on a net exercise (cashless) basis by the Company's Chairman and Chief Executive Officer (750,000 shares), the Company's Executive Vice President (34,849 shares) and a consultant (75,000 shares) resulting in net shares (after delivery of shares for withholding taxes) of an aggregate of 328,111 issued to the Company's Chairman and Chief Executive Officer, 27,713 net shares issued to the Company's Executive Vice President and 28,824 net shares issued to the consultant.

NOTE E – LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss by the weighted average number of outstanding common shares during the period. Diluted per share data includes the dilutive effects of options, warrants and restricted stock units. Potential shares of 862,500 and 1,132,500 at June 30, 2020 and June 30, 2019, respectively, consisted of options and restricted stock units.

Computations of basic and diluted weighted average common shares outstanding were as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2020	2019	2020	2019
Weighted-average common shares outstanding – basic	23,987,715	23,830,367	23,945,916	23,917,563
Dilutive effect of options, warrants and restricted stock units	—	—	—	—
Weighted-average common shares outstanding – diluted	<u>23,987,715</u>	<u>23,830,367</u>	<u>23,945,916</u>	<u>23,917,563</u>
Options and restricted stock units excluded from the computation of diluted loss per share because the effect of inclusion would have been anti-dilutive	862,500	1,132,500	862,500	1,132,500

NOTE F – MARKETABLE SECURITIES

Marketable securities as of June 30, 2020 and December 31, 2019 were composed of:

	June 30, 2020			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	\$ 9,516,000	\$ 56,000	\$ —	\$ 9,572,000
Fixed income mutual funds	8,692,000	—	(64,000)	8,628,000
Corporate bonds and notes	5,492,000	88,000	(17,000)	5,563,000
Total marketable securities	<u>\$ 23,700,000</u>	<u>\$ 144,000</u>	<u>\$ (81,000)</u>	<u>\$ 23,763,000</u>

	December 31, 2019			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	\$ 8,953,000	\$ 6,000	\$ —	\$ 8,959,000
Fixed income mutual funds	7,878,000	1,000	\$ —	7,879,000
Corporate bonds and notes	8,813,000	112,000	(33,000)	8,892,000
Total marketable securities	<u>\$ 25,644,000</u>	<u>\$ 119,000</u>	<u>\$ (33,000)</u>	<u>\$ 25,730,000</u>

NOTE G – COMMITMENTS AND CONTINGENCIES

[1] Legal Fees

Russ, August & Kabat provides legal services to the Company with respect to its patent litigation filed in May 2017 against Facebook, Inc. in the U.S. District Court for the Southern District of New York relating to several patents within the Company's Mirror Worlds Patent Portfolio (see Note I[4] hereof). The terms of the Company's agreement with Russ, August & Kabat provide for cash payments on a monthly basis subject to a cap plus a contingency fee ranging between 15% and 24% of the net recovery (after deduction of expenses) depending on the stage of the proceeding in which the result (settlement or judgment) is achieved. The Company is responsible for all of the expenses incurred with respect to this litigation.

Russ, August & Kabat also provides legal services to the Company with respect to its pending patent litigations filed in April 2014 and December 2014 against Google Inc. and YouTube, LLC in the U.S. District Court for the Southern District of New York relating to certain patents within the Company's Cox Patent Portfolio (see Note I[3] hereof). The terms of the Company's agreement with Russ, August & Kabat provide for legal fees on a full contingency basis ranging from 15% to 30% of the net recovery (after deduction of expenses) depending on the stage of the proceeding in which the result (settlement or judgment) is achieved. The Company is responsible for all of the expenses incurred with respect to this litigation.

Dovel & Luner, LLP provides legal services to the Company with respect to its patent litigation filed in September 2011 against sixteen (16) data networking equipment manufacturers in the U.S. District Court for the Eastern District of Texas, Tyler (see Note I[1] hereof). The terms of the Company's agreement with Dovel & Luner LLP essentially provide for legal fees on a full contingency basis ranging from 12.5% to 35% (with certain exceptions) of the net recovery (after deduction for expenses) depending on the stage of the proceeding in which a result (settlement or judgment) is achieved. For the three months ended June 30, 2020 and June 30, 2019, the Company incurred aggregate contingent legal fees to Dovel & Luner, LLP with respect to the litigation of \$18,000 and \$136,000, respectively. For the six months ended June 30, 2020 and June 30, 2019, the Company incurred contingent legal fees to Dovel & Luner, LLP with respect to the litigation of \$37,000 and \$244,000, respectively. As of June 30, 2020 and for the year ended December 31, 2019, the Company included in accrued expenses aggregate contingent legal fees to Dovel & Luner, LLP with respect to the litigation of \$36,000 and \$485,000, respectively. The Company is responsible for a certain portion of the expenses incurred with respect to the litigation.

Dovel & Luner, LLP also provided legal services to the Company with respect to the litigation settled in July 2010 against Cisco and several other major data networking equipment manufacturers (see Note I[2] hereof). The terms of the Company's agreement with Dovel & Luner, LLP with respect to this litigation provided for legal fees of a maximum aggregate cash payment of \$1.5 million plus a contingency fee of 24% (based on the settlement being achieved at the trial stage). With respect to royalty payments received from Cisco in accordance with the Company's settlement and license agreement with Cisco, the Company has an obligation to pay Dovel & Luner, LLP (including local counsel) 24% of such royalties received. During the three and six months ended June 30, 2020 and June 30, 2019, the Company did not incur any contingent legal fees to Dovel & Luner, LLP with respect to the litigation.

NOTE G – COMMITMENTS AND CONTINGENCIES (CONTINUED)

[2] Patent Acquisitions

In connection with the Company's acquisition of its Cox Patent Portfolio, the Company is obligated to pay Dr. Cox 12.5% of the net proceeds (after deduction of expenses) generated by the Company from licensing, sale or enforcement of the patent portfolio.

As part of the acquisition of the Mirror Worlds Patent Portfolio, the Company also entered into an agreement with Recognition Interface, LLC ("Recognition") pursuant to which Recognition received from the Company an interest in the net proceeds realized from the monetization of the Mirror Worlds Patent Portfolio, as follows: (i) 10% of the first \$125 million of net proceeds; (ii) 15% of the next \$125 million of net proceeds; and (iii) 20% of any portion of the net proceeds in excess of \$250 million. Since entering into the agreement with Recognition in May 2013, the Company has paid Recognition an aggregate of \$3,127,000 with respect to such net proceeds interest related to the Mirror Worlds Patent Portfolio. No such payments were made by the Company to Recognition during the three months ended June 30, 2020 and June 30, 2019.

In connection with the Company's acquisition of its M2M/IoT Patent Portfolio, the Company is obligated to pay M2M 14% of the first \$100 million of net proceeds (after deduction of expenses) and 5% of net proceeds greater than \$100 million from Monetization Activities (as defined) related to the patent portfolio. In addition, M2M will be entitled to receive from the Company \$250,000 of additional consideration upon the occurrence of certain future events related to the patent portfolio.

[3] Lease Agreements

The Company leases its principal office in New York City at a monthly base rate of approximately \$3,900 which lease expired on May 31, 2020 and is currently occupied on a month-to-month basis. The Company also leases office space in New Canaan, Connecticut (which was to expire on September 30, 2019) at a base rent (inclusive of utilities) of \$7,850 per month. The Connecticut lease was extended (in September 2019) through March 31, 2020 and thereafter on a month-to-month basis.

Under ASC 842 operating lease expense is generally recognized evenly over the term of the lease. Leases with an initial term of twelve months or less are not recorded on the balance sheet. For lease arrangements entered into or reassessed after the adoption of ASC 842, the Company combines the lease and non-lease components in determining the right-of-use ("ROU") assets and related lease obligation.

Activity related to the Company's operating leases was as follows:

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Operating lease expense	\$ 8,000	\$ 41,000
Cash paid for amounts included in the measurement of operating lease obligations	\$ 8,000	\$ 41,000

NOTE G – COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Company's operating lease agreements generally do not provide an implicit borrowing rate; therefore, an internal incremental borrowing rate was determined based on information available for purposes of determining the present value of lease payments. The Company has used an incremental borrowing rate of 5.5% for all recognized operating lease right-of use assets as of December 31, 2019. ROU lease assets and related lease obligations for the Company's operating leases were recorded in the unaudited condensed consolidated balance sheet as follows:

	<u>As of</u> <u>June 30, 2020</u>	<u>As of</u> <u>December 31, 2019</u>
Operating lease right-of-use assets	\$ —	\$ 41,000
Operating lease obligations – current	\$ —	\$ 41,000
Total lease obligations	<u>\$ —</u>	<u>\$ 41,000</u>
Weighted average remaining lease term (in months)	—	4 months
Weighted average discount rate	—	5.5%

As of June 30, 2020, there were no future lease payments included in the measurement of operating lease liabilities on the unaudited condensed consolidated balance sheet as all of the Company's leases are now on a month-to-month basis. In accordance with ASC 842 and the Company's policy, the Company does not recognize an operating lease right-of-use asset and associated lease obligation for leases with an initial term of less than 12 months.

NOTE H - EMPLOYMENT ARRANGEMENTS AND OTHER AGREEMENTS

[1] On July 14, 2016, the Company entered into a new employment agreement ("Agreement") with its Chairman and Chief Executive Officer pursuant to which he continues to serve the Company in such positions for a five year term, at an annual base salary of \$475,000 which shall be increased by 3% per annum during the term of the Agreement. The Agreement established an annual target bonus of \$175,000 for the Chairman and Chief Executive Officer based upon performance. In addition, the Company granted to the Chairman and Chief Executive Officer, under its 2013 Stock Incentive Plan, 750,000 restricted stock units ("RSUs"). The Agreement provided for the 750,000 RSUs to vest in the three tranches, as follows: (i) 250,000 RSUs shall vest on July 14, 2018, subject to the Chairman and Chief Executive Officer's continued employment by the Company through the vesting date (the "Employment Condition"); (ii) 250,000 RSUs shall vest at any time beginning July 14, 2018 through July 14, 2021 in equal annual installments for the remaining term of employment, subject to (1) the Employment Condition being satisfied through each such annual vesting date and (2) the Company's common stock achieving a closing price (for 20 consecutive trading days) of a minimum of \$3.25 per share (subject to adjustment for stock splits) at any time during the term of employment; and (iii) 250,000 RSUs vest at any time beginning July 14, 2018 through July 14, 2021 in equal annual installments for the remaining term of employment subject to (1) the Employment Condition being satisfied through each such annual vesting date and (2) the Company's common stock achieving a closing price (for 20 consecutive trading days) of a minimum of \$4.25 per share (subject to adjustment for stock splits) at any time during the term of employment. The aforementioned stock price vesting conditions of \$3.25 per share and \$4.25 per share have been satisfied. Notwithstanding the above, in the event of a Change of Control (as defined), a Termination Other Than for Cause (as defined), or a termination of employment by the Chairman and Chief Executive Officer for Good Reason (as defined), all of the 750,000 RSUs shall accelerate and become immediately fully vested.

NOTE H - EMPLOYMENT ARRANGEMENTS AND OTHER AGREEMENTS (CONTINUED)

Under the terms of the Agreement, so long as the Chairman and Chief Executive Officer continues to serve as an executive officer of the Company, whether pursuant to the Agreement or otherwise, the Chairman and Chief Executive Officer shall also receive incentive compensation in an amount equal to 5% of the Company's gross royalties or other payments from Licensing Activities (as defined) (without deduction of legal fees or any other expenses) with respect to its Remote Power Patent and a 10% net interest (gross royalties and other payments after deduction of all legal fees and litigation expenses related to licensing, enforcement and sale activities, but in no event shall he receive less than 6.25% of the gross recovery) of the Company's royalties and other payments relating to Licensing Activities with respect to patents other than the Remote Power Patent (including the Mirror Worlds Patent Portfolio, Cox Patent Portfolio and M2M/IoT Patent Portfolio) (collectively, the "Incentive Compensation"). During the three months ended June 30, 2020 and June 30, 2019, the Chairman and Chief Executive Officer earned Incentive Compensation of \$2,000 and \$30,000, respectively. During the six months ended June 30, 2020 and June 30, 2019, the Chairman and Chief Executive Officer earned incentive compensation \$10,000 and \$60,000, respectively. At June 30, 2020 and December 31, 2019, \$10,000 and \$92,000 of such compensation were included in accrued expenses, respectively.

On July 14, 2018, 375,000 RSUs owned by the Company's Chairman and Chief Executive Officer vested in accordance with the above referenced terms of the Agreement. With respect to such vesting of RSUs, the Company's Chairman and Chief Executive Officer delivered 172,313 shares of common stock to satisfy withholding taxes and received 202,687 net shares of common stock. On July 14, 2019, 125,000 additional restricted stock units owned by the Company's Chairman and Chief Executive Officer vested in accordance with the Agreement. With respect to the vesting of such restricted stock units, the Company's Chairman and Chief Executive Officer delivered 56,813 shares of common stock to satisfy withholding taxes and received 68,187 net shares of common stock.

The Incentive Compensation shall continue to be paid to the Chairman and Chief Executive Officer for the life of each of the Company's patents with respect to licenses entered into with third parties during the term of his employment or at any time thereafter, whether he is employed by the Company or not; provided, that, the Chairman and Chief Executive Officer's employment has not been terminated by the Company "For Cause" (as defined) or terminated by him without "Good Reason" (as defined). In the event of a merger or sale of substantially all of the assets of the Company, the Company has the option to extinguish the right of the Chairman and Chief Executive Officer to receive future Incentive Compensation by payment to him of a lump sum payment, in an amount equal to the fair market value of such future interest as determined by an independent third party expert if the parties do not reach agreement as to such value. In the event that the Chairman and Chief Executive Officer's employment is terminated by the Company "Other Than For Cause" (as defined) or by him for "Good Reason" (as defined), the Chairman and Chief Executive Officer shall also be entitled to (i) a lump sum severance payment of 12 months base salary, (ii) a pro-rated portion of the \$175,000 target bonus provided bonus criteria have been satisfied on a pro-rated basis through the calendar quarter in which the termination occurs and (iii) accelerated vesting of all unvested options, warrants, RSUs and other awards.

In connection with the Agreement, the Chairman and Chief Executive Officer has also agreed not to compete with the Company as follows: (i) during the term of the Agreement and for a period of 12 months thereafter if his employment is terminated by us "Other Than For Cause" (as defined) provided he is paid his 12 month base salary severance amount and (ii) for a period of two years from the termination date, if terminated "For Cause" by the Company or "Without Good Reason" by the Chairman and Chief Executive Officer.

NOTE H - EMPLOYMENT ARRANGEMENTS AND OTHER AGREEMENTS (CONTINUED)

[2] The Company's Chief Financial Officer serves on an at-will basis at an annual base salary of \$175,000 (increased in June 2016 from \$157,500) and is eligible to receive incentive or bonus compensation on an annual basis in the discretion of the Company's Compensation Committee. In the event the Chief Financial Officer's employment is terminated without "Good Cause" (as defined), he shall receive (i) (a) 6 months base salary or (b) 12 months base salary in the event of a termination without "Good Cause" within 6 months following a "Change of Control" of the Company (as defined) and (ii) accelerated vesting of all remaining unvested shares underlying his options or any other awards he may receive in the future.

[3] The Company's Executive Vice President serves on an at-will basis at an annual base salary of \$200,000 and is eligible to receive incentive or bonus compensation on an annual basis in the discretion of the Company's Compensation Committee.

NOTE I – LEGAL PROCEEDINGS

[1] In September 2011, the Company initiated patent litigation against sixteen (16) data networking equipment manufacturers (and affiliated entities) in the U.S. District Court for the Eastern District of Texas, Tyler Division, for infringement of its Remote Power Patent. Named as defendants in the lawsuit, excluding affiliated parties, were Alcatel-Lucent USA, Inc., Allied Telesis, Inc., Avaya Inc., AXIS Communications Inc., Dell, Inc., GarrettCom, Inc., Hewlett-Packard Company, Huawei Technologies USA, Juniper Networks, Inc., Motorola Solutions, Inc., NEC Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transition Networks, Inc. As of January 2018, the Company reached settlements with fifteen (15) of the sixteen (16) defendants with Hewlett-Packard Company ("HP") being the sole remaining defendant.

On November 13, 2017, a jury empaneled in the U.S. District Court for the Eastern District of Texas, Tyler Division, found that certain claims of the Company's Remote Power Patent were invalid and not infringed by HP. On February 2, 2018, the Company moved to throw out the jury verdict and have the Court determine that certain claims of the Remote Power Patent are not obvious (invalid) as a matter of law by filing motions for judgment as a matter of law on validity and a new trial on validity and infringement. On August 29, 2018, the District Court issued an order granting the Company's motion for judgment as a matter of law that the Remote Power Patent is valid, thereby overturning the jury verdict of invalidity and denied the Company's motion for a new trial on infringement. On August 30, 2018, the Company appealed the District Court's denial of its motion for a new trial on infringement to the U.S. Court of Appeals for the Federal Circuit. On September 13, 2018, HP filed a cross-appeal of the District Court's order that the Remote Power Patent is valid as a matter of law. Oral argument on the appeal was held on November 4, 2019 and a decision is pending. If the Company is unable to reverse the District Court order on appeal, it is not likely that the Company will receive significant licensing revenue from Cisco and certain other licensees for the period beginning in the fourth quarter of 2017 through the date of expiration of the Remote Power Patent (March 7, 2020) unless the Company obtains an arbitration ruling that the District Court order does not affect the obligation of Cisco and certain other licensees to pay the Company royalties under applicable license agreements or the Company reaches a satisfactory resolution with such licensees.

[2] In accordance with the Settlement and License Agreement, dated May 25, 2011, between the Company and Cisco (the "Agreement"), Cisco became obligated to pay the Company royalties (which began in the first quarter of 2011) based on its sales of PoE products up to maximum royalty payments per year of \$9 million beginning in 2016 for the remaining term of the patent. The royalty payments from Cisco are subject to certain conditions including the continued validity of certain claims of the Remote Power Patent or a finding that a third party's PoE products are found not to infringe the Remote

NOTE I – LEGAL PROCEEDINGS (CONTINUED)

Power Patent and such finding applies to the applicable licensee's licensed products. As a result of the HP jury verdict in November 2017 several of the Company's largest licensees, including Cisco, its largest licensee, notified the Company in late November 2017 and January 2018 that they will no longer make ongoing royalty payments to the Company pursuant to their license agreements. If the Company successfully overturns the District Court judgment of non-infringement in the appeal to the Federal Circuit, certain licensees of the Remote Power Patent, including Cisco, will be obligated to pay the Company all royalties that accrued but were not paid beginning in the fourth quarter of 2017 through March 2020. If the Company is unable to reverse the District Court order of non-infringement on appeal, Cisco and such other licensees are not likely to pay the Company royalties for such period unless the Company obtains an arbitration ruling that the District Court order of non-infringement does not affect the obligation of such licensees to pay the Company royalties or the Company reaches a satisfactory resolution with such licensees.

[3] On April 4, 2014 and December 3, 2014, the Company initiated litigation against Google Inc. ("Google") and YouTube, LLC ("YouTube") in the U.S. District Court for the Southern District of New York for infringement of several of its patents within its Cox Patent Portfolio acquired from Dr. Cox (see Note G[2] hereof) which relate to the identification of media content on the Internet. The lawsuit alleges that Google and YouTube have infringed and continue to infringe certain of the Company's patents by making, using, selling and offering to sell unlicensed systems and related products and services, which include YouTube's Content ID system. In May 2014, the defendants filed an answer to the complaint and asserted defenses of non-infringement and invalidity. The above referenced litigations that the Company commenced in the U.S. District Court for the Southern District of New York in April 2014 and December 2014 against Google and YouTube were subject to court ordered stays which were in effect from July 2, 2015 until January 2, 2019 as a result of proceedings at the Patent Trial and Appeal Board (PTAB) and the appeals of PTAB Final Written Decisions to the U.S. Court of Appeals for the Federal Circuit. Pursuant to a Joint Stipulation and Order Regarding Lifting of Stays, entered on January 2, 2019, the parties agreed, among other things, that the stays with respect to the litigations were lifted. In January 2019, the two litigations against Google and YouTube were consolidated. A Markman hearing (claim construction) was held on November 21, 2019 and a ruling has not yet been rendered.

[4] On May 9, 2017, Mirror Worlds Technologies, LLC, the Company's wholly-owned subsidiary, initiated litigation against Facebook, Inc. ("Facebook") in the U.S. District Court for the Southern District of New York, for infringement of U.S. Patent No. 6,006,227, U.S. Patent No. 7,865,538 and U.S. Patent No. 8,255,439 (among the patents within the Company's Mirror Worlds Patent Portfolio). The lawsuit alleged that the asserted patents are infringed by Facebook's core technologies that enable Facebook's Newsfeed and Timeline features. The lawsuit further alleged that Facebook's unauthorized use of the stream-based solutions of the Company's asserted patents has helped Facebook become the most popular social networking site in the world. The Company sought, among other things, monetary damages based upon reasonable royalties. On May 7, 2018, Facebook filed a motion for summary judgment on non-infringement. On August 11, 2018, the Court issued an order granting Facebook's motion for summary judgment of non-infringement and dismissed the case. On August 17, 2018, the Company filed a Notice of Appeal to appeal the summary judgment decision to the U.S. Court of Appeals for the Federal Circuit. On January 23, 2020, the U.S. Court of Appeals for the Federal Circuit reversed the summary judgment finding of the District Court and remanded the litigation to the Southern District of New York for further proceedings.

NOTE I – LEGAL PROCEEDINGS (CONTINUED)

[5] On November 13, 2018, the Company filed a lawsuit against Dell, Inc. in the District Court, 241st Judicial District, Smith County, Texas, for breach of a settlement and license agreement, dated August 15, 2016, with the Company as a result of Dell's failure to make royalty payments, and provide corresponding royalty reports, to the Company based on sales of Dell's PoE products. The Company believes Dell is obligated to pay the Company all prior unpaid royalties that accrued prior to and after the date of the HP Jury Verdict (November 2017) as well as future royalties through the expiration of the Remote Power Patent in March 2020. On December 7, 2018, Dell filed its Answer and Counterclaim. Dell denied the claim asserted by the Company and asserted a counterclaim in excess of \$1,000,000. On January 28, 2019, Dell brought a motion to stay the case as a result of the Company's pending appeal of the District Court order overturning the HP Jury Verdict on non-infringement to the U.S. Court of Appeals for the Federal Circuit and HP's appeal of the District Court's order that the Remote Power Patent is valid as a matter of law. Dell's motion to stay the litigation was denied by the Court on May 7, 2019. On December 19, 2019, the Company filed a motion for summary judgment. On March 25, 2020, the Court granted the Company's motion for summary judgment on its breach of contract claim and denied Dell's motion for summary judgment on its breach of contract claim. As a result of the summary judgment decision in favor of the Company, it is the Company's position that Dell is now obligated to pay the Company all prior unpaid royalties that accrued prior to and after the HP jury verdict (November 13, 2017) through March 7, 2020 (see Note N[2] – Subsequent Events).

NOTE J – EQUITY INVESTMENT

On December 18, 2018, the Company agreed to make an investment of up to \$5,000,000 in ILiAD Biotechnologies, LLC ("ILiAD"), a privately held development stage biotechnology company dedicated to the prevention of human disease caused by *Bordetella pertussis* with a current focus on its proprietary intranasal vaccine, BPZE1, for the prevention of pertussis (whooping cough). The investment by the Company was part of a financing of up to approximately \$16,200,000 of Class C units of ILiAD. The Company made an initial investment of \$2,500,000 at the initial closing in December 2018 which was followed by additional investments of \$1,000,000 and \$1,500,000 in May and August 2019, respectively, which were triggered by ILiAD's receipt of an "allowed to proceed" notice from the FDA permitting ILiAD to advance to the phase 2b clinical study of its BPZE1 vaccine. In connection with its investment, the Company's Chairman and Chief Executive Officer obtained a seat on ILiAD's Board of Managers and receives the same compensation for service on the Board of Managers as other non-management Board members. The Company incurred approximately \$41,000 of advisory and legal expenses in conjunction with its equity investment in ILiAD which have been capitalized as a component of the equity investment carrying value.

In April 2020, ILiAD advised its equity holders, including the Company, that it had received results from the Phase 2b study of BPZE1 which indicated excellent safety and colonization results. ILiAD further advised that it does not yet have final results for immunological data as certain aspects of laboratory assays (tests to measure antibodies) require further analysis. At June 30, 2020, the Company owned approximately 9.5% of the outstanding units of ILiAD on a non-fully diluted basis and 8.3% of the outstanding units on a fully diluted basis (after giving effect to the exercise of all outstanding options and warrants).

NOTE J – EQUITY INVESTMENT (CONTINUED)

The Company's investment in ILiAD is accounted for as an equity method investment in accordance with ASC 323, *Investments — Equity Method and Joint Ventures* as the Company has the ability to exercise significant influence, but not control, over ILiAD. The Company's investment in ILiAD is measured at cost minus impairment, if any, plus or minus the Company's share of ILiAD's income or loss. The Company's proportionate share of the income or loss from its investment in ILiAD is recognized on a one-quarter lag. At March 31, 2020, the Company owned approximately 9.5% of the outstanding units of ILiAD on a non-fully diluted basis. For the three and six months ended June 30, 2020, the Company recorded a net loss from its equity investment in ILiAD totaling \$205,000 and \$498,000, respectively.

The difference between the Company's share of equity in ILiAD's net assets and the equity investment carrying value reported on the Company's condensed consolidated balance sheet at June 30, 2020 is due to an excess amount paid over the book value of the investment totaling approximately \$5,000,000 which is accounted for as equity method goodwill.

NOTE K – STOCK REPURCHASES

On June 11, 2019, the Board of Directors authorized an extension and increase of the Company's share repurchase program (the "Share Repurchase Program") to repurchase up to \$5,000,000 of common stock over the subsequent 24 month period (for a total authorization of approximately \$22,000,000 since inception of the program in August 2011). The common stock may be repurchased from time to time in open market transactions or privately negotiated transactions in the Company's discretion. The timing and amount of the shares repurchased is determined by management based on its evaluation of market conditions and other factors. The Share Repurchase Program may be increased, suspended or discontinued at any time. Since inception of the Share Repurchase Program through June 30, 2020, the Company has repurchased an aggregate of 8,605,659 shares of its common stock at an aggregate cost of \$16,156,005 (exclusive of commissions) or an average per share price of \$1.88. All such repurchased shares have been cancelled. During the three months ended June 30, 2020, the Company repurchased 43,589 shares of its common stock at an aggregate cost of \$97,533 (exclusive of commissions) or an average per share price of \$2.24. During the six months ended June 30, 2020, the Company repurchased 115,889 shares of its common stock at an aggregate cost of \$249,158 (exclusive of commissions) or an average per share price of \$2.15. At June 30, 2020, the dollar value of remaining shares that may be repurchased under the Share Repurchase Program was \$4,196,100.

NOTE L – CONCENTRATIONS

Revenue from the Company's Remote Power Patent constituted 100% of the Company's revenue for the three and six months ended June 30, 2020 and June 30, 2019. Revenue from one licensee constituted 100% of the Company's revenue for the three months ended June 30, 2020. Revenue from four licensees constituted approximately 90% of the Company's revenue for the six months ended June 30, 2020. Revenue from four licensees constituted approximately 86% of the Company's revenue for the three months ended June 30, 2019 and revenue from four licensees constituted approximately 79% of the Company's revenue for the six months ended June 30, 2019. At June 30, 2020, the Company receivables from two licensees constituted 100% of the royalties receivables. At December 31, 2019, royalty receivables from four licensees constituted in the aggregate approximately 90% of the Company's royalty receivables.

NOTE M – DIVIDEND POLICY

On June 9, 2020, the Board of Directors of the Company approved the continuation of the Company's dividend policy which consists of semi-annual cash dividends of \$0.05 per share (\$0.10 per share annually) which are anticipated to be paid in March and September of each year. The Company's dividend policy was previously contingent upon receipt of revenue from its Remote Power Patent through March 7, 2020 (the expiration of the patent). On February 15, 2020, the Company's Board of Directors declared a semi-annual cash dividend of \$0.05 per share with a payment date of March 31, 2020 to all common shareholders of record as of March 16, 2020. The Company's dividend policy undergoes a periodic review by the Board of Directors and is subject to change at any time depending upon the Company's earnings, financial requirements and other factors existing at the time.

NOTE N – SUBSEQUENT EVENTS

[1] On July 14, 2020, our Chairman and Chief Executive Officer vested 125,000 shares of common stock pursuant to restricted stock units in accordance with his employment agreement (see Note H[1] hereof).

[2] On July 28, 2020, the Company agreed to settle its litigation against Dell, Inc. pending in the District Court, 24th Judicial District Smith County, Texas (see Note I[5] hereof). Under the terms of the settlement, Dell paid \$4,150,000 to the Company on August 7, 2020 in full settlement of the litigation.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS WHICH ARE STATEMENTS THAT INCLUDE INFORMATION BASED UPON BELIEF OF OUR MANAGEMENT, AS WELL AS ASSUMPTIONS MADE BY AND INFORMATION AVAILABLE TO MANAGEMENT. STATEMENTS CONTAINING TERMS SUCH AS "BELIEVES", "EXPECTS", "ANTICIPATES", "INTENDS" OR SIMILAR WORDS ARE INTENDED TO IDENTIFY FORWARD LOOKING STATEMENTS. ACTUAL RESULTS, EVENTS AND CIRCUMSTANCES (INCLUDING FUTURE PERFORMANCE, RESULTS AND TRENDS) COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN SUCH STATEMENTS DUE TO VARIOUS RISKS AND UNCERTAINTIES, INCLUDING, BUT NOT LIMITED TO, THOSE DISCUSSED ON PAGES 15-26 OF OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2019 FILED WITH THE SEC ON MARCH 20, 2020, PAGE 36 OF OUR QUARTERLY REPORT ON FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 31, 2020 FILED WITH THE SEC ON MAY 19, 2020 AND THIS QUARTERLY REPORT ON FORM 10-Q.

OVERVIEW

Our principal business is the development, licensing and protection of our intellectual property assets. We presently own eighty-four (84) patents including: (i) our remote power patent ("Remote Power Patent") covering the delivery of power over Ethernet (PoE) cables for the purpose of remotely powering network devices, such as wireless access ports, IP phones and network based cameras; (ii) our Mirror Worlds patent portfolio (the "Mirror Worlds Patent Portfolio") relating to foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system; (iii) our Cox patent portfolio (the "Cox Patent Portfolio") relating to enabling technology for identifying media content on the Internet and taking further action to be performed after on such identification; (iv) our M2M/IoT patent portfolio (the "M2M/IoT Patent Portfolio") relating to, among other things, enabling technology for authenticating, provisioning and using embedded sim cards in next generation IoT, Machine-to-Machine, and other mobile devices, including smartphones, tablets and computers; and (v) our QoS patents (the "QoS Patents") covering systems and methods for the transmission of audio, video and data in order to achieve high quality of service (QoS) over computer and telephony networks. In addition, we continually review opportunities to acquire or license additional intellectual property as well as other strategic alternatives.

We had been actively engaged in the licensing of our Remote Power Patent (U.S. Patent No. 6,218,930) which generated licensing revenue in excess of \$147,000,000 from May 2007 through March 7, 2020 (the expiration date of our Remote Power Patent. As of the expiration date, we had twenty-seven (27) license agreements with respect to our Remote Power Patent which, among others, include license agreements with Cisco, Dell Inc., Extreme Networks, Inc., Netgear, Inc., Microsemi Corporation, Motorola Solutions, Inc., NEC Corporation, Samsung Electronics Co., Ltd, Huawei Technologies Co., Ltd., ShoreTel, Inc., Juniper Networks, Inc., Polycom, Inc. and Avaya, Inc. As a result of the expiration of the Remote Power Patent, we no longer receive licensing revenue for our Remote Power Patent that accrues for any period subsequent to the expiration date. Depending upon the outcome of our appeal to the U.S. Court of Appeals for the Federal Circuit of the District Court order of non-infringement of our Remote Power Patent in our trial with Hewlett Packard, we may receive significant royalty payments from other licensees for periods prior to March 7, 2020 (see below and Note I[1] and Note I[2] hereof). We have also entered into license agreements with Apple Inc. and Microsoft Corporation with respect to our Mirror Worlds Patent Portfolio.

Our current strategy includes continuing our licensing efforts with respect to our Cox Patent Portfolio and Mirror Worlds Patent Portfolio as well as further developing our M2M Patent Portfolio (currently 29 issued patents) to position it for future licensing efforts. Our strategy includes working with inventors and patent owners to assist in the development and monetization of their patented technologies. We may also enter into strategic relationships with third parties to develop, commercialize, license or otherwise monetize their intellectual property.

Our patent acquisition and development strategy is to focus on acquiring high quality patents which management believes have the potential to generate significant licensing opportunities as we have achieved with respect to our Remote Power Patent and Mirror Worlds Patent Portfolio. Since our acquisition of Mirror Worlds Patent Portfolio in May 2013, we have received licensing and other revenue from the portfolio of \$47,150,000 through June 30, 2020.

On August 30, 2018, the Company appealed the decision of the U.S. District Court for the Eastern District of Texas denying its motion for a new trial on infringement with respect to the November 13, 2017 jury finding that its Remote Power Patent was not infringed by Hewlett Packard. Oral argument on the appeal took place on November 4, 2019 and a decision is pending. If we are unable to reverse the District Court order of non-infringement on appeal, it is likely that we will not receive significant royalty revenue from Cisco and certain other licensees for the period beginning in the fourth quarter of 2017 through March 7, 2020 (the expiration of our Remote Power Patent) unless we obtain an arbitration ruling that the District Court order did not affect such licensees obligation to pay us or we reach a satisfactory resolution with such licensees (see Note I[1] and Note I[2] hereof).

Consistent with our prior view, the District Court decision in August 2018 overturning the HP jury verdict on invalidity confirmed our belief that Dell, Inc. ("Dell") is obligated to pay to us all prior unpaid royalties, including those that accrued after the date of the HP jury verdict (November 13, 2017), as well as future royalties through the expiration of the Remote Power Patent in March 2020. Dell did make payment of such accrued royalties due to us and on November 13, 2018 we commenced legal action against Dell. On March 25, 2020, the Court granted our motion for summary judgment against Dell on our breach of contract claim. On July 28, 2020, we reached a settlement with Dell pursuant to which Dell paid us \$4,150,000 on August 7, 2020.

We have been dependent upon our Remote Power Patent for a significant amount of our revenue including our recurring revenue (mostly paid on a quarterly basis). As a result of expiration of the Remote Power Patent on March 7, 2020, we only received revenue of \$55,000 from one licensee for the three months ended June 30, 2020 and \$216,000 of revenue for the six months ended June 30, 2020. Our revenue of \$55,000 for the three months ended June 30, 2020 was related to receipt of an amended royalty report for the first quarter of 2020 from a licensee of our Remote Power Patent. Notwithstanding the expiration of our Remote Power Patent, we may still receive significant licensing revenue from our Remote Power Patent for periods prior to March 7, 2020 if we are successful on our appeal to the U.S. Court of Appeals for the Federal Circuit of the District Court's order of non-infringement in our trial with Hewlett Packard. Certain of our licensees for our Remote Power Patent including Cisco, our largest licensee, stopped paying us royalties pursuant to licenses for our Remote Power Patent following the HP jury verdict (November 2017). Since significant revenue from our Remote Power Patent licensees (including Cisco) for the period beginning in the fourth quarter of 2017 through March 7, 2020 remains uncertain pending the outcome of the appeal to the Federal Circuit of the District Court order of non-infringement in our trial with Hewlett Packard, our ability to achieve licensing revenue in the future may be dependent upon the outcome of litigation involving our Cox Patent Portfolio, Mirror Worlds Patent Portfolio and our ability to monetize our M2M/IoT Patent Portfolio or new patents to be acquired in the future. Accordingly, our future revenue is uncertain.

At June 30, 2020, our principal sources of liquidity consisted of cash and cash equivalents and marketable securities of \$44,735,000 and working capital of \$44,589,000. Based on our current cash position, we believe that we will have sufficient cash to fund our operations for the foreseeable future. Based on our cash position, we continually review opportunities to acquire additional intellectual property as well as evaluate other strategic opportunities.

As to the impact of the global COVID-19 pandemic on us, COVID-19 is currently causing some delays in the courts including the scheduling of trial dates, which could adversely affect the timing of our consummation of future license agreements (see Item 1A. Risk Factors in this Quarterly Report on Form 10-Q).

We currently have pending patent infringement litigations involving Remote Power Patent and certain patents within our Cox Patent Portfolio and Mirror Worlds Patent Portfolio (see "Legal Proceedings" at pages 36-37 hereof).

The Company may be deemed a personal holding company for 2020 (and possibly in subsequent years). If this is the case, the Company would be subject to a 20% tax on the amount of any PHC Income that it does not distribute to its shareholders (see Note B[8] and Item 1A. Risk Factors of this Quarterly Report).

In December 2018, we agreed to make an investment of up to \$5,000,000 (\$2,500,000 of which was invested at the December 2018 closing, an additional \$1,000,000 was invested in May 2019 and the balance of \$1,500,000 was invested in August 2019) in ILiAD Biotechnologies, LLC, a development stage biotechnology company with an exclusive license to over thirty-five (35) patents (see Note J to our unaudited condensed consolidated financial statements in this Quarterly Report).

On June 9, 2020, our Board of Directors approved the continuation of our dividend policy consisting of semi-annual cash dividends of \$0.05 per share (\$0.10 per share annually) which are anticipated to be paid in March and September of each year. The Company's dividend policy undergoes a periodic review by the Board of Directors and is subject to change at any time depending upon the Company's financial requirements, earnings and other factors existing at the time.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019

Revenue. We had revenue of \$55,000 for the three months ended June 30, 2020 as compared to revenue of \$599,000 for the three months ended June 30, 2019 due to the expiration of our Remote Power Patent in March 2020 resulting in no licensing revenue from such patent that accrues for any period subsequent to the expiration date. Revenue of \$55,000 for the three months ended June 30, 2020 related to receipt of an amended royalty report for the first quarter of 2020 from a licensee of our Remote Power Patent.

Operating Expenses. Operating expenses for the three months ended June 30, 2020 were \$760,000 as compared to \$1,115,000 for the three months ended June 30, 2019. We had costs of revenue of \$20,000 and \$175,000 for the three months ended June 30, 2020 and 2019, respectively. Included in the costs of revenue for the three months ended June 30, 2020 were contingent legal fees and expenses of \$18,000 and \$2,000 of incentive bonus compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement (see Note H to our unaudited condensed consolidated financial statements included in this Quarterly Report). Included in the costs of revenue for the three months ended June 30, 2019 were contingent legal fees and expenses of \$145,000 and \$30,000 of incentive bonus compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement.

General and administrative expenses were \$459,000 for the three months ended June 30, 2020 as compared to \$488,000 for the three months ended June 30, 2019. Amortization of patents was \$72,000 for three months ended June 30, 2020 as compared to \$87,000 for the three months ended June 30, 2019. Stock-based compensation expense related to the issuance of restricted stock units was \$85,000 for the three months ended June 30, 2020 as compared to \$127,000 for the three months ended June 30, 2019. Professional fees and related costs were \$124,000 for the three months ended June 30, 2020 as compared to \$238,000 for the three months ended June 30, 2019 primarily as a result of decreased costs related to our pending patent litigations.

Operating Loss. We had an operating loss of \$705,000 for the three months ended June 30, 2020 compared with operating loss of \$516,000 for the three months ended June 30, 2019. The increased operating loss of \$189,000 for the three months ended June 30, 2020 was primarily due to revenue of \$55,000 for the three months ended June 30, 2020 as a result of expiration of our Remote Power Patent as compared to revenue of \$599,000 for the three months ended June 30, 2019.

Interest and Dividend Income. Interest and dividend income for the three months ended June 30, 2020 was \$120,000 as compared to \$301,000 for the three months ended June 30, 2019 primarily as a result of lower interest rates on short-term fixed income investments and the sale of marketable securities.

Income Taxes (Benefit). We had no deferred tax for federal, state and local income taxes as a result of a full allowance for the deferred tax asset and no current tax benefit for federal, state and local taxes for the three months ended June 30, 2020. For the three months ended June 30, 2019, we had a deferred tax benefit for federal state and local income taxes of \$(38,000).

Share of Net Losses of Equity Method Investee. We incurred a net loss of \$205,000 during the three month period ended June 30, 2020 related to our equity share in ILiAD Biotechnologies as compared to a net loss of \$53,000 for the three months ended June 30, 2019 (see Note J to our condensed consolidated financial statements included in the Quarterly Report).

Net Loss. As a result of the foregoing, we realized a net loss of \$584,000 or \$(0.02) per share basic and diluted for the three months ended June 30, 2020 compared with a net loss of \$208,000 or \$(0.01) per share basic and diluted for the three months ended June 30, 2019. The increased net loss of \$376,000 for the three months ended June 30, 2020 was primarily due to decreased revenue of \$544,000 for the three months ended June 30, 2020 as a result of expiration of our Remote Power Patent, decreased interest and dividend income of \$181,000 and an increased loss on our share of net losses of our equity investment of \$152,000.

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Revenue. We had revenue of \$216,000 for the six months ended June 30, 2020 as compared to revenue of \$1,205,000 for the six months ended June 30, 2019. The decrease in revenue of \$989,000 for the six months ended June 30, 2020 was primarily due to the expiration of our Remote Power Patent in March 2020 resulting in no licensing revenue from such patent that accrues for any period subsequent to the expiration date.

Operating Expenses. Operating expenses for the six months ended June 30, 2020 were \$1,821,000 as compared to \$2,254,000 for the six months ended June 30, 2019. We had costs of revenue of \$52,000 and \$321,000 for the six months ended June 30, 2020 and 2019, respectively. Included in the costs of revenue for the six months ended June 30, 2020 were contingent legal fees and expenses of \$42,000 and \$10,000 of incentive bonus compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement (see Note H to our unaudited condensed consolidated financial statements included in this Quarterly Report). Included in the costs of revenue for the six months ended June 30, 2019 were contingent legal fees and expenses of \$261,000 and \$60,000 of incentive bonus compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement.

General and administrative expenses were \$945,000 for the six months ended June 30, 2020 as compared to \$976,000 for the six months ended June 30, 2019. Amortization of patents was \$144,000 for six months ended June 30, 2020 as compared to \$141,000 for the six months ended June 30, 2019. Stock-based compensation expense related to the issuance of restricted stock units was \$157,000 for the six months ended June 30, 2020 as compared to \$271,000 for the six months ended June 30, 2019. Professional fees and related costs were \$523,000 for the six months ended June 30, 2020 as compared to \$545,000 for the six months ended June 30, 2019.

Operating Loss. We had an operating loss of \$1,605,000 for the six months ended June 30, 2020 compared with operating loss of \$1,049,000 for the six months ended June 30, 2019. The increased operating loss of \$556,000 for the six months ended June 30, 2020 was primarily due to a decline in revenue of \$989,000 for the six months ended June 30, 2020 as a result of expiration of our Remote Power Patent.

Interest and Dividend Income. Interest and dividend income for the six months ended June 30, 2020 was \$298,000 as compared to interest and dividend income of \$602,000 for the six months ended June 30, 2019 primarily as a result of lower interest rates on short-term fixed income investments and the sale of marketable securities.

Income Taxes (Benefit). We had no deferred tax for federal, state and local income taxes as a result of a full allowance for the deferred tax asset and no current tax benefit for federal, state and local taxes for the six months ended June 30, 2020. For the six months ended June 30, 2019, we had a deferred tax benefit for federal state and local income taxes of \$(103,000).

Share of Net Losses of Equity Method Investee. We incurred a net loss of \$498,000 during the six month period ended June 30, 2020 related to our equity share in ILiAD Biotechnologies as compared to a net loss of \$149,000 for the six months ended June 30, 2019 (see Note J to our condensed consolidated financial statements included in this Quarterly Report).

Net Loss. As a result of the foregoing, we realized a net loss of \$1,921,000 or \$(0.08) per share basic and diluted for the six months ended June 30, 2020 compared with a net loss of \$448,000 or \$(0.02) per share basic and diluted for the six months ended June 30, 2019. The increased net loss of \$1,473,000 for the six months ended June 30, 2020 was primarily due to decreased revenue of \$989,000 for the six months ended June 30, 2020 as a result of expiration of our Remote Power Patent in March 2020, decreased interest and dividend income of \$304,000 and an increase loss on our share of net loss on our equity investment of \$349,000.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations primarily from revenue from licensing our patents. At June 30, 2020, our principal sources of liquidity consisted of cash and cash equivalents and marketable securities of \$44,735,000 and working capital of \$44,589,000. Based on our current cash position, we believe that we will have sufficient cash to fund our operations for the foreseeable future.

Working capital decreased by \$2,600,000 at June 30, 2020 to \$44,589,000 as compared to working capital of \$47,189,000 at December 31, 2019. The decrease in working capital of \$2,600,000 for the six months ended June 30, 2020 was primarily due to decreases in cash and cash equivalents of \$1,615,000 and marketable securities of \$1,967,000 offset by a decrease of current liabilities of \$1,245,000 including decreases in accounts payable of \$384,000, accrued contingency fees and related costs of \$447,000 and accrued payroll of \$318,000.

Net cash used in operating activities for the six months ended June 30, 2020 increased by \$731,000 from \$(1,342,000) for the six months ended June 30, 2019 to \$(2,073,000) for the six months ended June 30, 2020.

Net cash provided by investing activities during the six months ended June 30, 2020 was \$1,921,000 as compared to \$(1,715,000) primarily as a result of the differential of purchases and sales of marketable securities and our equity investment of \$1,000,000 for the six months ended June 30, 2019.

Net cash used in financing activities for the six months ended June 30, 2020 and 2019 was \$(1,463,000) and \$(1,783,000), respectively. The change of \$320,000 primarily resulted from \$366,000 of value of shares delivered to fund withholding taxes for the six months ended June 30, 2019 as compared to -0- for the six months ended June 30, 2020.

We maintain our cash in money market accounts and other short-term fixed income securities. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

We do not have any long-term debt, capital lease obligations, purchase obligations or other long-term liabilities.

CRITICAL ACCOUNTING POLICIES

Our condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of our financial statements included in this Quarterly Report on Form 10-Q requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The significant estimates and assumptions made in the preparation of our unaudited condensed consolidated financial statements include revenue recognition, patents, stock-based compensation, income taxes, valuation of patents and equity method investments, including the evaluation of the Company's basis difference. Actual results could be materially different from those estimates, upon which the carrying values were based. See also Note B to our unaudited condensed consolidated financial statements included in this quarterly report.

Accounting Standards Adopted In The Period

Fair Value Measurements

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement ("ASC 820"), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). ASU 2018-13 is intended to improve the effectiveness of fair value measurement disclosures. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. On January 1, 2020, the Company adopted ASU 1028-13. The adoption of this standard did not have a material impact on its consolidated financial statements.

New Accounting Standards

Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*. The ASU removes certain exceptions for performing intra-period allocation and calculating income taxes in interim periods. It also simplifies the accounting for income taxes by requiring recognition of franchise tax partially based on income as an income-based tax, requiring reflection of enacted changes in tax laws in the interim period and making improvements for income taxes related to employee stock ownership plans. ASU 2019-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2020. Early adoption is permitted, including adoption in any interim period for which financial statements have not been issued. We are currently evaluating the impact the standard will have on its consolidated financial statements.

Equity Securities

In January 2020, the FASB issued ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. The ASU amends and clarifies certain interactions between the guidance under Topic 321, Topic 323 and Topic 815, by reducing diversity in practice and increasing comparability of the accounting for these interactions. The amendments in the ASU should be applied on a prospective basis. The ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period for which financial statements have not yet been issued. We are currently evaluating the impact the standard will have on its consolidated financial statements.

We do not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on our consolidated financial position, statements of operations and cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon this review, these officers concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in applicable rules and forms and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls

There was no change in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

Remote Power Patent Litigation

In September 2011, we initiated patent litigation against sixteen (16) data network-ing equipment manufacturers (and affiliated entities) in the U.S. District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent. Named as defendants in the lawsuit (excluding affiliated parties) were Alcatel-Lucent USA, Inc., Allied Telesis, Inc., Avaya Inc., AXIS Communications Inc., Dell, Inc., GarrettCom, Inc., Hewlett-Packard Company, Huawei Technologies USA, Juniper Networks, Inc., Motorola Solutions, Inc., NEC Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transition Networks, Inc. As of January 2018, we reached settlements with fifteen (15) of the sixteen (16) defendants, with Hewlett-Packard Company (“HP”) being the sole remaining defendant.

On November 13, 2017, a jury empaneled in the U.S. District Court for the Eastern District of Texas, Tyler Division, found that certain claims of our Remote Power Patent were invalid and not infringed by HP. On February 2, 2018, we moved to throw out the jury verdict and have the Court determine that certain claims of our Remote Power Patent are not obvious (invalid) as a matter of law by filing motions for judgment as a matter of law on validity and a new trial on validity and infringement. On August 29, 2018, the District Court issued an order granting our motion for judgment as a matter of law that our Remote Power Patent is valid, thereby overturning the jury verdict of invalidity and denied our motion for a new trial on infringement. On August 30, 2018, we appealed the District Court’s denial of our motion for a new trial on infringement to the U.S. Court of Appeals for the Federal Circuit. On September 13, 2018, HP filed a cross-appeal of the District Court’s order that the Remote Power Patent is valid as a matter of law. Oral argument on the appeal took place on November 4, 2019 and a decision is pending.

Dell Litigation

On November 13, 2018, we filed a lawsuit against Dell, Inc. in the District Court, 241st Judicial District, Smith County, Texas, for breach of a settlement and license agreement, dated August 15, 2016, with us as a result of Dell’s failure to make royalty payments, and provide corresponding royalty reports, to us based on sales of Dell’s PoE products. We believe Dell is obligated to pay us all prior unpaid royalties that accrued prior to and after the date of the HP Jury Verdict (November 2017) as well as future royalties through the expiration of the Remote Power Patent in March 7, 2020. On December 7, 2018, Dell filed its Answer and Counterclaim. Dell denied the claim asserted by us and asserted a counterclaim in excess of \$1,000,000. On January 28, 2019, Dell brought a motion to stay the case as a result of our pending appeal of the District Court order overturning the HP Jury Verdict on non-infringement to the U.S. Court of Appeals for the Federal Circuit and HP’s appeal of the District Court’s order that the Remote Power Patent is valid as a matter of law. Dell’s motion to stay was denied by the Court on May 7, 2019. On December 19, 2019, we filed a motion for summary judgment on our breach of contract claim. On March 25, 2020, the Court granted summary judgment in our favor and denied Dell’s motion for summary judgment. On July 28, 2020, we reached a settlement with Dell. On August 7, 2020, under the terms of the settlement, Dell paid us \$4,150,000 in full settlement of the litigation.

Mirror Worlds Patent Portfolio Litigation

Pending Facebook Litigation

On May 9, 2017, Mirror Worlds Technologies, LLC, our wholly-owned subsidiary, initiated litigation against Facebook, Inc. (“Facebook”) in the U.S. District Court for the Southern District of New York, for infringement of U.S. Patent No. 6,006,227, U.S. Patent No. 7,865,538 and U.S. Patent No. 8,255,439 (among the patents within our Mirror Worlds Patent Portfolio). The lawsuit alleged that the asserted patents are infringed by Facebook’s core technologies that enable Facebook’s Newsfeed and Timeline features. The lawsuit further alleged that Facebook’s unauthorized use of the stream-based solutions of our asserted patents has helped Facebook become the most popular social networking site in the world. We sought, among other things, monetary damages based upon reasonable royalties. On May 7, 2018, Facebook filed a motion for summary judgment on non-infringement. On August 11, 2018, the Court issued an order granting Facebook’s motion for summary judgment of non-infringement and dismissed the case. On August 17, 2018, we filed a Notice of Appeal to appeal the summary judgment decision to the U.S. Court of Appeals for the Federal Circuit. Oral argument on the appeal was held on January 13, 2020. On January 23, 2020, the U.S. Court of Appeals for the Federal Circuit reversed the summary judgment finding on non-infringement of the District Court and remanded the litigation to the Southern District of New York for further proceedings.

Cox Patent Portfolio – Google and YouTube Legal Proceedings

On April 4, 2014, we initiated litigation against Google Inc. (“Google”) and YouTube, LLC (“YouTube”) in the U.S. District Court for the Southern District of New York for infringement of several of our patents within our Cox Patent Portfolio which relate to the identification of media content on the Internet. The lawsuit alleges that Google and YouTube have infringed and continue to infringe certain of our patents by making, using, selling and offering to sell unlicensed systems and related products and services, which include YouTube’s Content ID system. In May 2014, the defendants filed an answer to our complaint and asserted defenses of non-infringement and invalidity.

On December 3, 2014, we initiated a second litigation against Google and YouTube in the United States District Court for the Southern District of New York for infringement of our then newly issued patent (part of the Cox Patent Portfolio) relating to the identification and tagging of media content (U.S. Patent No. 8,904,464). The lawsuit alleges that Google and YouTube have infringed and continue to infringe the asserted patent by making, using, selling and offering to sell unlicensed systems and products and services related thereto, which include YouTube’s Content ID system. In January 2015, the defendants filed an answer to our complaint and asserted defenses of non-infringement and invalidity.

The above referenced litigations that we commenced in the U.S. District Court for the Southern District of New York in April 2014 and December 2014 against Google and YouTube were subject to court ordered stays which were in effect from July 2, 2015 until January 2, 2019 as a result of proceedings then pending at the Patent Trial and Appeal Board (PTAB) and the appeals to the U.S. District Court of Appeals for the Federal Circuit. In addition, we agreed not to assert certain patent claims which were asserted in the litigation commenced in April 2014 and we were permitted to substitute new claims. Google also agreed to terminate the pending IPR proceedings that were subject to remand by the U.S. Court of Appeals for the Federal Circuit. In January 2019, our two litigations against Google and YouTube were consolidated. A Markman hearing (claim construction) was held on November 21, 2019 and a ruling has not been rendered.

ITEM 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations and trading price of our common stock. In addition to the risks described below and elsewhere in this Quarterly Report, our Annual Report on Form 10-K for the year ended December 31, 2019 (pages 16-27) filed with the Securities and Exchange Commission on March 20, 2020 and our Quarterly Report on Form 10-Q for the three months ended March 31, 2020 (page 36) filed with the Securities and Exchange Commission on May 19, 2020 include a discussion of our risk factors and should be carefully considered by investors.

We could be classified as a Personal Holding Company resulting in a 20% tax on our PHC Income that we do not distribute to our shareholders

The personal holding company (“PHC”) rules under the Internal Revenue Code impose a 20% tax on a PHC’s undistributed personal holding company income (“PHC Income” which means, in general, taxable income subject to certain adjustments). For a corporation to be classified as a PHC, it must satisfy two tests (i) that more than 50% in value of its outstanding shares must be owned directly or indirectly by 5 or fewer individuals at any time during the second half of the year (after applying constructive ownership rules to attribute stock owned by entities to their beneficial owners and among certain family members and other related parties) (the “Ownership Test”) and (ii) at least 60% of its adjusted ordinary gross income for a taxable year consists of dividends, interest, royalties, annuities and rents (the “Income Test”). During July 2020, based upon available shareholder ownership information, we may have satisfied the Ownership Test. As a result, we have engaged tax counsel to further evaluate whether we have satisfied the Ownership Test and whether potential future income generated by us constitutes “royalties” within the meaning of the Income Test as well as other related PHC issues. If we satisfy the Ownership Test and achieve net income for the year ended December 31, 2020 (or for any subsequent year in which the Ownership Test is also satisfied) that is determined to satisfy the Income Test, we would constitute a PHC and for the year ended December 31, 2020 (and each subsequent year in which the Ownership Test is also satisfied) we would be subject to a 20% tax on the amount of any PHC Income that we do not distribute to our shareholders. While we have sustained a net loss of \$1,921,000 for the six month period ended June 30, 2020, it is possible that we could achieve significant net income for the year ended December 31, 2020 in the event of favorable outcomes of pending litigation and receipt of significant revenue including, but not limited to, our appeal to the U.S. Court of Appeals for the Federal Circuit of the District Court’s order of non-infringement in its trial with Hewlett Packard (see Note I [1] and Note I [2] hereof). If any such net income were achieved for the year ended December 31, 2020 and determined to be PHC Income, it would be subject to a 20% tax on the amount of any PHC Income that we do not distribute to our shareholders.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Issuances of Unregistered Securities

There were no such issuances during the three months ended June 30, 2020.

Stock Repurchases

On August 22, 2011, we established a share repurchase program (“Share Repurchase Program”). On June 11, 2019, our Board of Directors authorized an extension and increase of the Share Repurchase Program to repurchase up to \$5,000,000 of shares of our common stock over the subsequent 24 month period (for a total authorization of approximately \$22,000,000 since inception of the program). The common stock may be repurchased from time to time in open market transactions or privately negotiated transactions in our discretion. The timing and amount of the shares repurchased is determined by management based on its evaluation of market conditions and other factors. The Share Repurchase Program may be increased, suspended or discontinued at any time. Since inception of the Share Repurchase Program in August 2011 through June 30, 2020, we have repurchased an aggregate of 8,605,659 shares of our common stock at an aggregate cost of \$16,156,005 (exclusive of commissions) or an average per share price of \$1.88. During the three months ended June 30, 2020, we repurchased 43,589 shares of our common stock at an aggregate cost of \$97,533 (exclusive of commissions) or an average per share price of \$2.24. At June 30, 2020, the remaining dollar value of shares that may be repurchased under the Share Repurchase Program was \$4,196,100.

During the months of April, May and June 2020, we purchased common stock pursuant to our Share Repurchase Program as indicated below:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 to April 30, 2020	30,402	\$2.24	30,402	\$4,225,638
May 1 to May 31, 2020	13,187	\$2.24	13,187	\$4,196,100
June 1 to June 30, 2020	—	—	—	\$4,196,100
Total	43,589	\$2.24	43,589	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. OTHER INFORMATION

None.

ITEM 5. EXHIBITS

(a) Exhibits

[31.1](#) [Controls and Procedure Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*](#)

[31.2](#) [Controls and Procedure Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*](#)

[32.1](#) [Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*](#)

[32.2](#) [Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*](#)

101 Interactive data files:**

101.INS XBRL Instance Document

101.SCH XBRL Scheme Document

101.CAL XBRL Calculation Linkbase Document

101.DEF XBRL Definition Linkbase Document

101.LAB XBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

* Filed herewith

** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NETWORK-1 TECHNOLOGIES, INC.

Date: August 12, 2020

By: /s/ Corey M. Horowitz
Corey M. Horowitz
Chairman and Chief Executive Officer

Date: August 12, 2020

By: /s/ David C. Kahn
David C. Kahn
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1350)**

I, Corey M. Horowitz, Chairman and Chief Executive Officer of Network-1 Technologies, Inc. (the "Registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2020 of the Registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (that Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 12, 2020

/s/ Corey M. Horowitz
Corey M. Horowitz
Chairman and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1350)**

I, David C. Kahn, Chief Financial Officer of Network-1 Technologies, Inc. (the "Registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2020 of the Registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 12, 2020

/s/ David C. Kahn
David C. Kahn
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), the undersigned, Corey M. Horowitz, Chief Executive Officer and Chairman of Network-1 Technologies, Inc., a Delaware corporation (the "Company"), does hereby certify to his knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Corey Horowitz
Chief Executive Officer and Chairman
August 12, 2020

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), the undersigned, David C. Kahn, Chief Financial Officer of Network-1 Technologies, Inc., a Delaware corporation (the "Company"), does hereby certify to his knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David C. Kahn
Chief Financial Officer
August 12, 2020